RECIPROCITY

UNDER THE

TARIFF ACT OF 1890.

A PAPER PREPARED FOR THE MEETING OF THE INTERNATIONAL STATISTICAL INSTITUTE AT CHICAGO, SEPTEMBER, 1893.

BY

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100 COPIES PRINTED.

No. ——.

WASHINGTON.
1893.

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RECIPROCITY.

SECTION 3. That with a view to secure reciprocal trade with countries producing the following articles, and for this purpose, on and after the first day of January, eighteen hundred and ninety-two, whenever, and so often as the President shall be satisfied that the Government of any country producing and exporting sugars, molasses, coffee, tea, and hides, raw and uncured, or any of such articles, imposes duties or other exactions upon the agricultural or other products of the United States, which in view of the free introduction of such sugar, molasses, coffee, tea, and hides into the United States, he may deem to be reciprocally unequal and unreasonable, he shall have the power and it shall be his duty to suspend, by proclamation to that effect, the provisions of this act relating to the free introduction of such sugar, molasses, coffee, tea, and hides, the production of such country, for such time as he shall deem just, and in such case and during such suspension duties shall be levied, collected, and paid upon sugar, molasses, coffee, tea, and hides, the product of or exported from such designated country as follows, namely:

All sugars not above number thirteen Dutch standard in color shall pay duty on their polariscopic tests as follows, namely:

All sugars not above number thirteen Dutch standard in color, all tank bottoms, sirups of cane juice or of beet juice, melada, concentrated melada, concrete and concentrated molasses, testing by the polariscope not above seventy-five degrees, seven-tenths of one cent per pound; and for every additional degree or fraction of a degree shown by the polariscopic test, two hundredths of one cent per pound additional.

All sugars above number thirteen Dutch standard in color shall be classified by the Dutch standard of color, and pay duty as follows, namely: All sugar above number thirteen and not above number sixteen Dutch standard of color, one and three-eighths cents per pound.

All sugar above number sixteen and not above number twenty Dutch standard of color, one and five-eighths cents per pound.

All sugars above number twenty Dutch standard of color, two cents per pound.

Molasses testing above fifty-six degrees, four cents per gallon.

Sugar drainings and sugar sweepings shall be subject to duty either as molasses or sugar, as the case may be, according to polariscopic test.

On coffee, three cents per pound.

On tea, ten cents per pound.

Hides, raw or uncured, whether dry, salted, or pickled, Angora goat-skins, raw, without the wool, unmanufactured, asses' skins, raw or unmanufactured, and skins, except sheep-skins, with the wool on, one and one-half cents per pound.—*Tariff Act*, 1890, § 3.

ABOUT once in fifty years it becomes necessary to revise our definitions of certain words which have been supposed to be of fixed meaning. As one political party indefinitely shades off into another, adopting its policy and even set phrases, political words unconsciously take on a new significance, or are intentionally turned to new uses. It might be supposed that the meaning of the word "reciprocity" had become so fixed as to be unchangeable. Reciprocal is synonymous with mutual—something is given in return for something that is taken,—and the idea of mutual advantage is essential. The ordinary business transactions of daily life are strictly reciprocal. The operations of a usurer, on the other hand, lack the quality that true reciprocity should have; while the thief has lost all sense of the mutual qualification.

As applied to commercial operations, reciprocity was at a very early period made a subject of treaty arrangement. Indeed, I believe, the earliest treaty known, the treaty which we see in cuneiform characters in our museums, contained a reciprocity clause. But it is only within the present century, and as an agent of reaction against the mercantile system, that Huskisson used it as an instrument for breaking down the protective policy of England. And coming, as it did, at

a period of great commercial and industrial expansion in England, continental nations attributed some of the expansion to this policy. Commercial treaties, in one form or another, were entered into by Great Britain with her neighbors, and so generally at one time was this practice adopted by continental nations that it was thought the day of high tariffs was over. Had the policy been allowed to run its logical course, even this end might have been attained. But the necessities of some governments, and national jealousies of others, both acting with individual interests and commercial greed, changed the course of events and led to a return of high tariffs—equivalent to a declaration of commercial war. But wherever reciprocity has been applied the object has been to secure concession, to obtain in return for favors granted some definite benefit to the contracting parties respectively, and without direct injury to any other party. It has rarely been used to supplement a tariff policy of protection; on the contrary, its spirit distinctly opposes protection. Further than this, it is an inducement voluntarily offered, for a concession voluntarily to be granted. There is no element of force implied. Still another qualification must be mentioned; being in its nature voluntary, it is capable of almost indefinite application, and can hardly with justice be entered upon without a belief that it can be applied wherever real benefit may accrue.

It has remained to the United States to give a new definition to the word reciprocity, and under this new definition to apply it to a new use, introducing a number of qualifications quite opposed to the original meaning. With a customs law exceeded in its protective feature by few tariffs among

civilized nations; with a commercial policy that is distinctly opposed to the importation of foreign merchandise, even of raw materials of industry; a reciprocity clause is coupled with a new tariff law, the avowed object of which was to further discourage imports. This reciprocity clause was framed distinctly on the supposition that some nations would refuse to avail themselves of its privileges, for otherwise there was no necessity for it. A general tariff law would have sufficed. It thus embodied the idea of force, and under threat of discriminating duties, it proposed to build up commerce, which is of all things the most timid of force. Before entering into any inquiry as to whether this reciprocity arrangement would be agreeable to other nations, it forged by law a weapon, which by the mere proclamation of the President might be used to club weaker nations into a compliance with its demands. Avoiding the formal name of treaty, it still appealed to the original voluntary element of reciprocity, and entered into " agreements," as if there was any room for agreement where the force is all on one side.

By the Constitution a treaty is part of the supreme law of the land. But, under the reciprocity clause, it is not a treaty that results, but a mere agreement. This distinction may prove a matter of some importance. The provisions of a treaty supersede any law or Congress that is in conflict with them. So a law of Congress passed subsequent to a treaty supersedes *pro tanto* a treaty. So also, a subsequent treaty nullifies a treaty of older date. The exact diplomatic position of an agreement, such as we are about to describe, is doubtful, and raises some interesting Constitutional questions. Can it supersede the provisions of a full treaty, sol-

emnly entered into and formally ratified? For example, Article V. of the treaty entered into, in 1846, between the United States and New Granada (now the United States of Colombia), expressly stipulates:

"No higher or other duties shall be imposed on the importation into the United States of any articles the produce or manufacture of the Republic of New Granada, and no higher or other duties shall be imposed on the importation into the Republic of New Granada of any articles the produce or manufactures of the United States, than are or shall be payable on the like articles, being the produce or manufactures of any other foreign country; nor shall any higher or other duties or charges be imposed, in either of the two countries, on the exportation of any articles to the United States or to the Republic of New Granada, respectively, than such as are payable on the exportation of the like articles to any other foreign country; nor shall any prohibition be imposed on the exportation or importation of any articles the produce or manufactures of the United States or of the Republic of New Granada, to or from the territories of the United States, or to or from the territories of the Republic of New Granada, which shall not equally extend to all other nations."

Yet the President, by proclamation, suspends the free admission of sugar, molasses, coffee, tea and hides, the product of Colombia, while admitting these same commodities free from other countries of South America. The proclamation in effect supersedes the solemn treaty requirements, and yet all questions of law and fact would seem to be in favor of the treaty. It is true the legislative power cannot question the right of a President to frame a treaty. "Congress, a co-ordinate branch of the government, cannot enlarge the [treaty-making] powers of the President, and

most certainly cannot restrict or limit them." But a treaty is part of the law of the land; and a President, by mere proclamation, cannot set aside the law, except in emergencies like rebellion or invasion. It is very doubtful if he can supersede an international contract, unless all the formalities of a regular treaty should be performed. Even a law of Congress that affects a treaty, acts municipally, and cannot affect the second contracting power. Yet here is a grave responsibility, coupled with a power even greater than the responsibility, conferred upon a President, and to be exercised on his mere opinion, subject to no restrictions from the branch of government that shares with him the power and responsibility of the treaty-making power. It is, further, a step in a new direction—showing a disposition on the part of Congress to share with the President its power over customs duties.

Take this treaty with Colombia, one of the most important articles of which has been nullified by the President's proclamation. A treaty may be abrogated by mutual consent of the two contracting parties for non-performance of a material stipulation; when performance becomes physically or morally impossible; or by change of circumstances which have altered the state of things which was the basis of the treaty. In any of these cases no complaint of bad faith could be made against the nation abrogating the contract. With the treaty with Colombia no one of these circumstances was present or could be pleaded in extenuation of an act that deprived Colombia and her productions of standing commercially equal with other nations in the ports of the United States. On the mere assertion that the government

of Colombia "does impose duties or other exactions upon the agricultural and other products of the United States, which in view of the free introduction of such sugars. molasses, coffee, tea and hides into the United States, in accordance with the provisions of said act, the President deemed to be reciprocally unequal and unreasonable," duties gravely discriminating against the products of Colombia are imposed, and in direct defiance of treaty stipulations. It is not the extent of this trade which is in question. The new duties affect Colombian importations to about the extent of two million dollars; but the principle would be the same if the imports amounted to only two dollars.

Moreover, has the President's act in imposing duties on Colombian products brought us any nearer to a better situation? It closes the markets of the United States to Colombian coffee and sugars, but it does not make any the less "unequal and unreasonable" the tariff of Colombia—a tariff to which all other nations trading with her are subjected, and which could not therefore be regarded as discriminating against the United States. If anything, the President's act must create a discrimination against us—the last intention (if any real intention existed) of the framers of the reciprocity clause.

It is a common saying that sense of possession or appreciation of value is greatly enhanced by a liability of loss. No element is so strong in developing a fraternal feeling among nations than the jealousy that one great power has of another in the enjoyment of privileges that may be monopolized by another. The jealousy shown by France towards England in the occupation and control of Egypt is

akin to the feeling which every now and then prompts a would-be statesman and diplomat in the United States to flaunt the Monroe doctrine, and endeavor to throw protection over the Republics of Central and South America. Little regarded while fighting among themselves, they become of the highest moment when a powerful nation of Europe so much as looks askance at them. Having neglected their commercial possibilities for nearly half a century, the discovery is suddenly made that they have a market worth cultivating, and the belief is inculcated that this market may be monopolized, in part or in whole, through political influence. This is a dangerous course to enter upon, for the stages of progress are defined and strictly logical. Given political influence, and material interests grow up under it, interests that must be protected by this influence, and by the force of the nation upholding it or exercising it; interests whose greed is commensurate with the influence and power they think they can invoke in their behalf. Once let a difference occur and paper protests be disregarded, and political influence easily drifts, if not into actual occupation, into a limited protectorate, with an undefined and indefinable division between interference in mere external relations, and interference with political and commercial concerns. Recognizing the danger of this development, diplomacy has sought to put proper bounds upon the pleading and enforcement of contracts with and private claims against a power. It is now a recognized principle in the practice of the United States, that in claims on contract diplomatic interference is never put forth, except where there is a failure or denial of justice shown in connection

with it; and even "where the claim presents peculiarly meritorious features the government will only make use of its good offices with a view to facilitating the efforts of the claimant to obtain an adjustment of his claim." Every dollar of American capital invested in any form in Central or South American States, whether it be a temporary object of trade or in permanent improvements, represents so much to be protected in troublous times by the influence of the United States; and every dollar of injury to property of citizens of the United States may, in the hands of an over-eager or unscrupulous diplomat, be made the excuse for serious interference in and even greater injury to the interests of the country to which he may be accredited. The Monroe doctrine may be right in principle, but under modern conditions it can be applied with difficulty with full justice to all the parties concerned.

The firm relations that arise between nations depend in the present time more upon commercial than upon political relations: and commercial relations have a distinct advantage over political, in that they do not depend upon paper treaties and artificial community of interest, perhaps dictated more by force than by voluntary agreement. They must arise in the first place naturally out of mutual advantage; and so long as life and property are protected and subject to equal privileges, they remain unbroken and pursue a natural development. They are further a guaranty against disturbance and against violation. Nothing is so timid as capital, and no man has a greater interest in the preservation of law and order than the capitalist, whether he merely owns a cottage and a kit of tools, or a palace and a railroad system.

In pleading political fraternity between the United States and its sister American Republics, sentimentalism rapidly develops the feeling into one of fraternalism, as dangerous to the United States from entangling alliances, as degrading to the Republics from a forced and unnatural political position in the eyes of the world. Such fraternity really offers no basis for commercial influence, still less for commercial monopoly. And a commercial concession extorted from one country at the expense of others, is merely serving notice upon the whole that at some future day, under a new deal, a similar advantage may be taken of the nations now favored. If a discriminating duty is imposed now upon Colombian coffee, while the coffee products of her sister States are admitted free, there is no guaranty that with a change of polity Colombia may not be greatly favored at the expense of the Republics, who now apparently gain a decided concession at her expense.

We are not sure of the exact view taken of commerce in these commercial arrangements. The informality of these documents, agreements made by diplomatic officers and accepted by the Congress of the Central or South American Republics, were based upon a general provision contained in a tariff act of wide application on the part of the United States; and are terminable by an act of legislation on either side, and apparently without the intervention of diplomatic form. This informality would seem to indicate that commerce held a very secondary position in the minds of those who framed this reciprocity policy. Patents and copyright, trade marks, and anchorage or port dues, are deemed worthy of full and formal treaties, revocable only under solemn or-

der; but commerce is subjected to an informal arrangement, which may be lightly set aside at the will of either contracting party. The political apportionment of Africa sinks into insignificance by the side of the attempted commercial apportionment of the Central and South American continent; and while the barbarous tribes of Africa may be handed around at pleasure among the nations who are struggling for political supremacy on that continent, just as four centuries ago their uncivilized brethren on the American continent found their territory seized and themselves driven out like noxious animals, the civilized communities of South America cannot be sold, stamped with political ownership, much less with commercial proprietorship, under paper agreements framed upon so superficial a foundation.

Let us turn to the form of these "arrangements."

On its face the schedule is perfectly simple. A few articles, easily described, and important articles of commerce, articles of food, with one exception, were taken for the side of the United States. They were all articles that under the general tariff would be admitted free of duty. The penalty imposed upon a nation which should refuse to enter into an arrangement, was that these articles produced by them should pay duty upon entry into the United States. In any market there can be but one price for one commodity, and if the more important nations should come into the agreement to the exclusion of the less important, there would be a discrimination in favor of the former. But, suppose that the more important nations had not seen fit to accept the proffered terms. Suppose, and the situation is conceivable, the coffee-producing nations of South America should have

combined and decided to reject the advances of the United States. On whom would the penalty have fallen? The fiction that the foreigner pays customs duties, save under peculiar and not very usual economic conditions, is one that has long since been exploded. The whole burden of the penalty would fall not upon the exporting countries, as was intended in the scheme, but upon the consumer in the United States. He would have to pay eighteen millions of dollars on the coffee, and thirty-four millions of dollars on the sugar derived from Central and South America. Undoubtedly, the same aggregate quantities would be imported; for the domestic demand must be satisfied, and there is no way of escaping the incidence of a customs tax. It might have changed the direction of trade, compelling these South and Central American states to send their goods by an indirect commerce. But if this had proved impracticable, it would have been the East Indian possessions, and the beet-root sugar growers of Europe who would have profited. For with the increased price of sugar in the American market consequent upon the duty, it would have been of advantage for Europe to send her sugar here, and take the South and Central American products excluded from our market. If only Brazil had remained outside of the commercial agreement, this result would have been produced in a less degree.

Perhaps it was with this contingency in mind that so little was demanded of the agreeing countries in return for this apparent concession. Those lines of export trade were selected in which the United States already held a distinct advantage. No other nation can compete with us

in wheat and wheat flour, or, indeed, breadstuffs generally; in meat products, cotton-seed oil, agricultural implements and machinery and railway equipments. Such articles already held a natural monopoly, as it were, of the demand from these countries—a monopoly that had made its way in spite of hostile tariffs and even prohibitions on the part of the mother country in the case of colonies. In many cases these articles were already admitted free of duty or under very favorable rebates, being recognized as essential to the immediate welfare and the economic development of the people. To insert them in the new free list was merely giving them the same position that they held in the regular tariff, and to that extent at least the concession granted was in appearance only. In the case of other commodities where a reduction of duty was sought, it is doubtful if they are of sufficient amount to compensate for the disadvantage under which the manufacturer of the United States labors in the cost of his raw material. The fact that our machinery of iron and steel has been able to find any place in South American markets is a certain proof of American ingenuity and special adaptability for the purpose. A more expensive machine can be taken because the greater yield makes it the cheaper in the end. It is well-known that under concessions, freely granted, the free admission of machinery can be obtained in any of these countries. What then is the real gain in reducing the duty from 60 and 48 per cent. (as in the Brazilian regular tariff) to 25 per cent. (as in the arrangement)?

The real animus of the reciprocity clause is sufficiently indicated by its limited application. Reciprocal trade was

invited only with countries producing and exporting sugar, molasses, coffee, tea and raw hides, all of them articles that did not seriously compete with our domestic products. This, under the circumstances, was a shrewd limitation. No protected industry could complain, because where the shoe was supposed to pinch most tightly, the ointment of the bounty was applied. It appealed to the poor by offering them a cheap and sweet breakfast table; it appealed to the rich by offering a cheap and sweet five o'clock tea. So that from the standpoint of the trade and manufactures of the United States no possible injury could follow it, unless one or more of the leading producing nations of these articles should refuse to come into the provisions of the reciprocity clause. To avoid such a contingency some threats must be made, some sanction for non-compliance, and a discriminating duty was introduced for that purpose. Naturally such a discriminating duty appealed to the nations having very large interests in the production of this particular line of commodities, and to them only. All Europe was practically excluded from any benefit under this reciprocity clause, while against the countries of Asia and Africa, with which our export trade is comparatively small, and where the bulk of our exports are admitted free of duty, it could hardly be urged that the agricultural or other products of the United States are subjected to "exactions reciprocally unequal and unreasonable." Pointing directly to the countries of Central and South America, there was still some discrimination in the benefits to be conferred. Brazil, with her export to the United States of 450,000,000 pounds of coffee a year, naturally had a greater interest in coming into the agreement, and

so escaping an adverse duty of ten per cent., than did Mexico, Gautemala, Salvador and Colombia, not one of whom exported to this country more than 21,000,000 pounds. So the free entry of hides appealed more strongly to the Argentine Republic than to Brazil and the other South American Republics, the export interests of which in this commodity were smaller in value. China and Japan could monopolize the benefit of the free introduction of tea, if only British Indian tea was subjected to the discriminating duty. And the event has proved that there are some nations with great material interests at stake, which yet prefer to stand outside of the arrangement and claim the privileges which seem to be granted free to all by the regular schedule of the McKinley act. No matter from what direction this subject is reviewed the political features become dominant. It was intended to affect home politics; and it was intended to introduce new relations into our foreign intercourse, relations that in the guise of commercial privileges carried with them all the marks of political and even partisan motives. Has the intention been effected?

A very curious chapter could be written on the attitude toward England assumed by American party or faction. It has at times taken almost the intensity of a blood hatred, undoubtedly a relic of the Revolution and the War of 1812. It would be interesting to speculate what would have been the results (and I am sure they would have been very different) had Pitt been able to carry his liberal commercial policy of 1783 and receive the newly-founded Republic as an independent nation politically, but at one with England commercially, a policy that had only been freshly stated, but

amply proved by Adam Smith to be the right one. But a change of political party in England, and the pressure of an iron-bound commercial system that had been framed and maintained intact by that most jealous and most keen of all agencies, private interest, prevented, and the United States was regarded as a rich commercial prize to be monopolized by Great Britain without concession on her part, and to be treated almost as a colonial possession. The bad blood that such a policy entailed has been handed down from father to son; and the England of to-day, who invites all nations to trade freely with her and without discrimination, is still regarded as the England of 1783, who stood at the very fore in the commercial warfare of high tariff and protecting bounties, and even absolute prohibition of trade, guided only by her own interests and her jealousy of the industrial and commercial possibilities of other nations. In spite of this curious obliquity of vision, more than half of the trade of the United States is had with Great Britain; and to her commercial policy do we owe, in great measure, the rapid development of our internal resources. The whole spirit of the tariff schedule of the McKinley act was to discourage imports from European countries, and in the only opportunity the bill contained of increasing and encouraging commercial relations (*i. e.* the reciprocity clause), Europe is not so much as hinted at. Can it be that the desire to pose as a protector of America resulted in such blindness as to overshadow the large interests of other continents? The demagogue is invariably a man of one side.

But if in our commercial relations with England a suspicion of demagogy can be entertained, no such charge can lie

against our relations with Germany, who is our principal competitor in this very South American trade—not a passive competitor, but a perniciously active one, whose trade is extending in the same directions and in the same lines of goods as the trade of the United States. Indeed, so favorably do we regard that nation that we have entered into one of the so-called commercial arrangements with it. The extent of the concession on either side is difficult to determine, although there may naturally be some prestige in it. The United States inspects its exports of meat; and in return for that Germany graciously deigns to receive directly this meat, which she has been indirectly getting by way of other nations. Further than this, she extends to certain products of the United States the minimum tariff which has also been conceded to Austria-Hungary, and for which, at the time the commercial arrangement was made, January, 1892, other nations were in treaty. If the minimum tariff is conceded all round, the United States stands precisely where it did before the arrangement. But it was formally announced to Germany that the tea, sugar, molasses, coffee and hides produced in the German Empire would be admitted free of duty into the United States. The importance of this concession is beyond measure, merely because we have no microscope of magnifying power so great as to allow us to find it. It may, however, be asserted with perfect confidence that the trade and production of the United States will not be materially injured by these concessions, that look so well upon paper.

In view of this commercial jealousy of Great Brltain, it is rather curious to find a measure that in every set of condi-

tions must give her some commercial benefit. Her industrial system is framed upon a scale intended to satisfy the wants of a market far in excess of that supplied by her home and by her colonial market. The concentration of machinery, of skilled labor, of capital, fixed and circulating, has given her a manufacturing capacity which feeds and is supported by her equally great commercial interests. In such an industrial organization the closing of one or more important markets to her products merely means a temporary disarrangement. Loss there may be, and this is reflected in prices, which in a new adjustment opens up new channels of trade. But such is its strength that it can endure a very severe blow with comparatively little inconvenience. Take for example its cotton exports. In the year 1892 the value of the exports of cotton manufactured from the United Kingdom was £66,000,000 sterling. Could we conceive it possible that the concessions granted to the United States in the markets of Central and South America and the foreign West Indies had excluded Great Britain from any participation in them, about 15 per cent. of her cotton trade would have been affected. Out of the total export of £66,000,000, about £10,000,000 were sent to these countries and islands. Undoubtedly some part of her manufacturing interests would be placed at a disadvantage by such exclusion, and there would be a natural reaction in the home markets. But such an exclusion is hardly conceivable, as a market for textiles is controlled by other considerations than mere price. Fashion, taste in manufactures, manner of packing, and systems of credits, are each an important factor in determining demand, and a loss of five or seven and a half per

cent. of her cotton exports would not mean a loss one-third or one-half as great as fifteen per cent., but the loss would decrease in almost geometrical proportion to the actual percentage. Whatever surplus was thrown back on the manufacturers' hands would fall in price and find new outlets, leaving the aggregate demand almost unchanged.

This same reorganization of market would take place in the articles of export from South American countries. And, indeed, such a movement has already begun. The coffee of Venezuela is going to other markets, and there has been a noticeable falling off in the exports of that commodity from Maracaibo to the United States. The President's proclamations imposing duties on sugar, molasses, coffee and hides of Colombia, Venezuela and Haiti, place these products at a disadvantage in our market. Take the article coffee alone. In 1892 the United States imported from these three countries 73,000,000 pounds, about 11½ per cent. of the total imports of coffee from all sources. Naturally this narrow ing of the sources of supply has favored those countries whose coffee products are allowed free admission, and it is not surprising to find that the exports of Brazil are increased in consequence. Nor will the advantage be reaped entirely by Brazil; for every pound of coffee or sugar that we refuse to take from South American countries we must look elsewhere, and we are thus playing into the hands of other countries which we might be little disposed to favor under natural conditions. In 1893 from the three countries covered by the President's proclamation, we imported 22,216,000 pounds of coffee as compared with the 73,000,000 pounds in 1892, leaving 50,000,000 pounds to be obtained from other

countries, or about 8 per cent. of our total consumption. More than this: a surplus of 50,000,000 pounds of coffee is thrown upon the world's market, where it must lead to a fall in price, and so favor the purchasers of coffee in countries other than the United States.

In the case of sugar the difference is not so large, but in the face of a deficient crop it would easily prove serious. In every event we have taken an advantage from these countries of South America, with which it is plain our commerce would naturally be, and handed it over to other nations, commercially and industrially our rivals. The figures of trade, so far as obtained, show that we have hardly affected the imports of English, French and German cottons into these countries. But the same returns show that we have produced a disturbance in the old channels of trade, always more or less a costly matter. In coffee alone a disturbance has been produced, and in domestic markets equal in percentage to one-half the disturbance that would follow a complete exclusion of British cotton from all Central and South America, and it is the United States that pays the cost of this disturbance. The coffee colonies of the European nations and the favored nations of South America reap the benefit, and naturally the European nation that commercially rules the world will receive the largest share. Instead, therefore, of regarding the measure as a hit against English interest, it might much better be described as a measure in its favor.

It remains then to examine the application of the policy to one of the countries that was intended to receive some of the chief benefits of the measure; and at the very outset we are met by a circumstance that deserves to rank as comic,

had it not been treated with such intense seriousness and with such gross neglect of the proprieties. Any one who has handled statistics will know how dangerous it is to fool with a table of prices. Even with the greatest care there is always room for suspicion of juggling. There is the same danger in dealing with values of large amounts. The export of a hundred and fifty million bushels of wheat, when wheat is sixty cents a bushel, is a very different matter from the export of a like quantity with wheat at a dollar a bushel. So again it would be misleading to state that the export of wheat in two stated years amounted to one hundred millions of dollars, if this difference of price in the two years could still be shown.

All of the figures ostensibly given out as the measure of the effects of this reciprocity arrangement have been infected with an error that amounts to little less than a blunder, and one that would shame a novice in statistics. Each month the National Bureau of Statistics officially published a table which was intended to show the commerce of the United States with these South American countries, and with especial reference to the results of the reciprocity clause. In every instance nothing but the values of commodities were given, and in nearly every instance the figures bore on their face a lie; yet they were solemnly quoted as definite proof of the success of the policy, and known to be inflated, no attempt was made to correct them, or to give the outside public the slightest intimation that they were erroneous. On the contrary they were embodied in official papers, and conclusions based upon them that would have been disproved by the true returns. For more than a year was this

allowed to pass unquestioned, and the friends, as well as the critics of the reciprocity policy, were more than surprised at the result. The former gloated over what they called the success of the scheme; and the latter were gratified to note the increasing total, and began to hope this reciprocity would after all prove an entering wedge towards widening the channels of our foreign commerce and lead to a more liberal commercial policy. The hopes of either were doomed to disappointment, because these totals which supplied the foundation of their expectations and arguments proved to be merely a matter of book-keeping, which, when corrected, tells almost entirely against reciprocity as established by the McKinley act.

Any one familiar with the influence on prices of an excessive issue of irredeemable paper money could not fall into the blunder of quoting the local price, which is given in paper money, as the true value of the article quoted. The instant that this price comes into the market of the world, whatever is due to depreciated value of the currency disappears, and the price is at once reduced to specie basis. If there is any one lesson in political economy that should by this time be thoroughly learned by sharp and bitter experience, it is the fictitious quality of paper values. If prosperity is to be gauged by high prices, that is to say if high prices represent real values, it would only remain for every nation to enter into a reckless issue of paper money of an irredeemable nature and push it to its uttermost extreme. Fortunately such a heresy is not general, and there still remains some sense of commercial honor, as well as a sense of national faith, which enables a true relation to be found in prices.

Nearly all countries of South America have resorted to paper money, and in many cases the issues have been carried beyond safety, and the notes circulate for less than their nominal value. Exports from these countries, quoted in paper prices, have unnaturally swelled total values, and it is such values that have been quoted officially, and in all seriousness, as actual values, and long after attention had been called to the blunder involved. Neglecting a study of quantities of exports, values alone have been insisted upon as the true gauge. And to the extent of inflated prices have the values of imports into the United States from these countries been also inflated—a true form of bubble prosperity, if there ever was one. The returns of the fiscal year 1893, quoted in paper money which was depreciated to the extent of from 30 to 50 per cent., were given side by side with the returns of 1892, quoted on a specie basis. And attention was called with some exultation to the enormous increase in value, as proof positive of the tremendous success of the reciprocity policy. And, in default of other figures, the critics of this policy were obliged to depend upon them, while marveling that no other nation, having commercial relations with South America, should have participated in some measure in this apparent prosperity. As trade is not apt to change its channel suddenly, and as the prices of South American produce in North American markets showed comparatively slight alterations, the official figures were naturally suspected, and, when the true cause was discovered, left those who had depended upon them in a pitiable plight; for the whole fabric of their superstructure crumbled at once, and left something of improvement, but an improvement by no means

commensurate with the expectations, and much less with the claims, of those who believe in such a reciprocity system.

That I may show more clearly the true extent of this playing with trade returns, (for it can hardly preserve the name of juggling, as sheer ignorance and not intention appears to have been the basis,) I will examine the course of paper money in Brazil, with a glance at her financial necessities and resources.

In 1846, the value of the Brazilian milreis was fixed by statute at two shillings and six pence sterling, and for twenty years after that date the paper issued suffered no depreciation. It was the Paraguayan war, which lasted from 1864 to 1870, that involved Brazil in so heavy expenses and necessitated a considerable addition to her paper money, that produced a marked fall in the rate of exchange, which fell as low as 15 pence. It rose to par again in 1875, but fluctuated in the succeeding year, and did not touch 27 pence again until 1888. Early in 1889 it reached 28⅛ pence, the highest point ever recorded and to which it has never since attained. The result has been to involve Brazilian finances in great confusion. The explanation of this is comparatively simple. Under excessive inducement of government bounty and liberal borrowing while the national credit was good, the country ran into debt and made internal improvements upon an extensive scale, importing expensive machinery from abroad, and laying out productive operations far in excess of the immediate capacity of the land. With very high duties on imports, the government looked upon the tariff for its chief source of revenue. But under the monarchy, year after year followed

with increasing deficits, which were met by foreign loans, obtained for some time at fair rates on the London market. This process of piling up debt was continuous, and during the period of diminishing credit and decreasing revenue after the fall of the monarchy, the annual deficit still remained. Lacking credit to obtain loans anywhere, at home or abroad, the government was obliged to resort to extensive issues of paper money. The issue is now about three hundred millions of dollars as against one hundred and fifty millions three years ago. And naturally under such a flood of paper promises exchange rapidly fell, until the milreis is worth less than one-half its face value. The proposed budget for 1893 provided for a revenue of 213,000,000 milreis, of which 150,000,000 was to be raised on import duties. There were no other important sources of revenue but railways, stamps and post-offices, and telegraphs, amounting in all to 43,000,000 milreis. The expenditures, on the other hand, were estimated to be about 322,000,000 milreis. In nine years the expenditure has invariably exceeded the revenue.

This would not be a serious situation were it not for the apparently restricted opportunities of the state. It is, in the first place, a purely agricultural state, and its leading productions would be included in a list of ten articles, all of which are for export. The energies of production have been so long confined within limited channels that change would be difficult, if not out of the question; and, indeed, it would seem as if the people had naturally hit upon the commodities for the raising of which their country is best adapted. This is in some measure shown by the fact that

Brazil's chief commodity can bear an export duty and yet compete successfully in the markets of the world with the untaxed product of her neighbors. So that given a freedom from revolution, the development of Brazilian resources will continue largely upon the lines already taken. Not so the government revenue. The foreign debt is already large in proportion to the annual revenue of the State, and becoming more and more burdensome through the fall in the rate of exchange. The floating debt increases from year to year, and with every year the opportunity of funding it advantageously diminishes. The government is dependent upon its customs revenue for the means of paying the current expenses of the state, and so far from being on a revenue basis, many of the important duties have been imposed more for protective than for revenue purposes. The total value of imports into Brazil from 1885 to 1890 never exceeded in any one year 311,000,000 milreis. The rate of import duty was thereon about fifty per cent. ad valorem.

The actual par value of the Brazilian milreis is about 54.6 cents in United States money. In February, 1892, the paper milreis was worth about 23 cents, and the course of depreciation from 1891 to the present day is shown in the accompanying diagram. All products from Brazil, exported to the United States and entered free of duty or under a specific duty, were entered at their paper values. Coffee that was actually selling at New York at 13 or 16 cents a pound, was entered at the custom house at 30 and 31 cents a pound. Hides and India rubber and coffee, constituting the bulk of our imports from Brazil, have been imported at prices more than double the actual value in

specie, and these inflated prices have been made the foundation of our official returns. Seventy-five millions out of a total value of nine hundred and forty millions of imports were due to these fictitious values. I doubt if the experience of any nation of modern times has given rise to such implicit and child-like confidence in figures that were known to be false. I doubt if there is any civilized nation, other than the United States, in which a person who claims to have an even slight acquaintance with statistics could make such a blunder, and still continue to be quoted and interviewed as an authority.

The true method of developing trade, is by a patient and minute study of trade conditions. The American who would start out to supply the world with tin, would offer warming pans and skates to tropical countries. In almost the same degree would the domestic manufacturer err who should under existing conditions undertake to supply the other countries with woolen goods; for it is notorious that he can supply the home market with difficulty even when the competition of foreigners is restrained by heavy duties; and the moment he goes into another market, he finds himself handicapped by the additional cost of his raw material. Even the use of shoddy and Peruvian cotton, the increasing demand for which (its use being considered) should cause anxiety, cannot place him in an advantageous position for competing with the English, French or German manufacturer. Much of the common articles of hardware of American make, are subject to the same handicap; while a host of less important lines of goods are never seen in foreign markets, merely because they cannot be produced so

cheaply, of a certain grade or pattern, as in other nations, and the disadvantage under which the American labors is generally of an artificial, and therefore of a correctable nature. In these American markets private—not governmental—energy had already established a position, and in precisely those products of agriculture and manufacture in which the United States held a natural advantage.

Economically speaking, there is no immediate gauge to the commercial capacity of a market. So many considerations of race, climate and degree of culture must be considered, that only the crudest indications can be taken even among civilized nations. The trade per capita brings out remarkable differences, and when we compare an industrial with an agricultural state the comparison is even more misleading. Taken as a whole, both Central and South America are in the agricultural stage. The products of agriculture, of the mining and forestry and pastoral pursuits, constitute the great bulk of the exports, while the imports are almost entirely of manufactured products, or of food products necessary to make good the needs of the people. Their whole dependence for manufactures is upon foreign countries; and it is in this particular direction that any marked extension of trade must occur. So that while the aggregate of population might appear large, the demand for foreign food products and manufactures might be small. The population of the countries included in the reciprocity agreements numbers about twenty million souls; but the total commerce would fall short of $500,000,000. The details may be thus given in round numbers (1890 being taken as the basis):

	Population.	Imports.	Exports.
Brazil.	14,002,335	$121,260,000	$144,800,000
Guatemala	1,460,017	7,720,000	14,580,000
Honduras	431,917	2,000,000	3,420,000
Nicaragua	282,845	2,780,000	2,400,000
Salvador	651,130	2,420,000	7,680,000
San Domingo.	610,000	2,400,000	3,900,000
Cuba	2,438,395	55,760,000	66,300,000
Porto Rico		14,380,000	11,120,000
British Guiana	288,328	9,440,000	9,840,000
Total	20,164,967	$218,160,000	$2,64040,000
Per capita	....	$10.81	$12.79
(U. S.) Per capita.	....	12.35	13.50

Perhaps the most striking feature of the population here appealed to is the low quality of their demand. Aborigines, or a mixed class, constitute the bulk of the population, having commercial needs that are almost insignificant when compared with the needs of a civilized community. Great as their wealth is, and greater still as their possibilities are, it is yet out of the question to apply the same gauge commercially as we would apply to France, Germany or the United Kingdom. The principal articles of import could be comprised in a list of a dozen, and whatever demand exists outside of these is due not to a natural native demand, but rather to supply the wants of foreign capital which has gone into these countries to develop their resources. The states encourage immigration; they offer concessions on a liberal scale to capital willing to work their fields, their mines, or to construct their railroads. They have built up an extensive and burdensome debt, mortgaging their future without attempting to measure their actual and immediate capacity to pay. Concessions and monopolies constitute the chief

business of the government, to secure which a host of foreign adventurers are willing to promise everything, if only they may secure privileges,—privileges never intended to be exploited by themselves, but obtained only to be sold in foreign markets, as gilt-edged enterprises. If there was any example of this reckless discounting of the future needed, the experience of the Baring Brothers in Argentine finance would be sufficient.

Where the interests are chiefly financial and depend upon the whim and fancy of government; where valuable privileges are given without the protection that can insure their continuance or even their existence, every undertaking is more or less affected by speculation. The risk and uncertainty make the ordinary returns on capital insufficient, and money for investment in South America demands and obtains a higher rate of interest than it could secure in one of the older countries of Europe. Operations, therefore, are more costly to establish, they are more costly to continue; and whether it be the government or private enterprise that takes the initiative in investments and improvements, there will always be this element of risk to be considered. Even the government becomes more or less infected with the speculative element, and if the inside history of the rise of dictator after dictator in these Republics could be written, it would be found that in the majority of cases the revolution was based upon moneyed interests rather than upon any unselfish desire to improve the government or condition of the people. And until these speculative features of politics and commerce are eliminated by the introduction of an extensive material interest, sufficiently important to secure protection,

whether by itself or by the hands of another, these markets will be controlled by private energies of factors rather than by governmental interposition through treaties or agreements. Until a government is able to protect itself, it cannot hold out the hope of protecting others. And where political jealousy is so rife and active as in these American republics, to add commercial jealousy would only add fuel to the flame. An unstable government is jealous of the patronizing acts of another and stronger government. A people living under an unstable government, and possessed of a character that is untrained and mercurial, regards revolution as one of its choicest privileges. Incapable of governing themselves, they resent keenly the interference of other nations. It would be the part of wisdom to suffer them to pass through the long and severe ordeal that only can insure them independence, with a stable administration, and to enter into no alliances that could cultivate ill-feeling, or give rise to complications that must produce friction.

Given a race of which the bulk is composed of a low caste and rather ignorant half-savage type; living under the rule of a dominant race, alien in origin and alien in habits, little inclined to steady labor, and as extravagant in their tastes as they are in their boasting; given a government unstable, oftentimes corrupt, and a machinery easily turned to personal aggrandizement; given a soil of almost virgin quality, producing with little preparation crops for which there is a steady demand in the world's market; given, in short, a country where every possibility seems to exist awaiting the proper influences for its development, namely, labor and capital; and it is easy to determine that country's economic

condition. Commercially, it will stand high in the world's market, because it has something to sell that the world stands ready to buy. Industrially, it will be dependent upon other nations. Politically, it will be incapable of self-government, save after trials and experiences that oftentimes threaten its very existence, much more its independence. The tendency will be for foreign energy, backed with foreign capital, to enter under liberal concessions from the government and gradually crowd the natives to the wall, reducing them from the labor standpoint to the same positions relatively as the natives reduced the aborigines. And with this foreign capital must come a certain amount of political influence which is at once a menace and a protection to the political welfare of the state.

Of the three prime necessities of a people, food, clothing and shelter, it is only articles of clothing that are needed among these people. Their other wants would come under the head of telegraph and railway equipments, agricultural implements and machinery intended for the development of the agricultural resources of the country. In the matter of supplying South America with clothing, the United States offers a position of vantage over every other nation, for a cheap cotton goods constitutes the main article of clothing. Why should it happen then that raw cotton can be sent from the Southern States to Great Britain, France and Germany, to be there manufactured and re-exported to South and Central America, where they undersell the cotton manufactured in the United States? This is on its face one of those curious commercial problems that continue unsolved for years, for no reasonable explanation seems possible. In

Brazil alone the reduction on cotton goods, conceded to the United States, is from 60 and 48 per cent. to 25. The effect of this was, in brief, as follows:*

EXPORTS OF COTTON MANUFACTURES FROM THE UNITED STATES TO BRAZIL.

Year.	Colored.		Uncolored.		All	Total
	Yards.	Value.	Yards.	Value.	Other.	Value.
1888	5,038,989	$464,628	2,145,385	$176,318	$25,040	$665,986
1889	4,548,110	412,247	2,364,803	190,611	28,236	631,094
1890	4,871,062	383,593	5,321,715	398,478	31,629	813,700
1891	3,455,502	299,003	2,695,954	232,506	50,465	581,974
1892	5,094,847	323,341	5,229,174	350,384	75,645	749,370

EXPORTS OF COTTON FROM GREAT BRITAIN TO BRAZIL.

Year.	Yarn, lbs.	Value.	By the Yd.	Value.	Others.	Total Value.
1888	1,279,000	$238,667	214,958,800	$12,266,840	$1,904,654	$14,410,161
1889	1,679,200	331,656	178,000,900	10,443,204	1,723,128	12,497,988
1890	1,386,300	284.816	212,640,500	12,177,554	2,018,830	14,481,200
1891	1,198,300	268,564	186,466,900	10,132,277	2,119,780	12,520,621
1892	1,117,600	235,791	278,898,500	14,015,488	2,319,033	16,570,312

The trade returns for 1892 certainly show a marked increase in the imports into the United States of Brazilian sugar over the returns of 1891 and 1890. As compared with 1891 there was an increase of 75 per cent., and as compared with 1890 there was an increase of 142 per cent. From that showing the imports of sugar appear to have been encouraged, but when we go back of 1890 we find that the imports were very much larger than the imports of 1892. In 1884, for example, 363,000,000 pounds were imported from Brazil, as against 177,500,000 pounds in 1892. If, therefore, the arrangement of 1891 offered a distinct advantage to Brazilian sugar exported, why should not the exports to the United States have at least approached the figures of 1884, when there was no such special advantage

* Other tables are reserved for the proceedings of the Institute.

in force? It is evident that we must look elsewhere for the increased exports during 1891 and 1892, and this explanation may be found to a certain extent in the British returns. Prior to 1884 Brazil constituted one of the leading sources of raw sugar for the English refiner, but beginning with 1885 the quantity taken fell off to a half and even one-third of what had been the regular annual amount. That is to say, while Great Britain used to take from Brazil about 1,600,000 cwts. of raw sugar annually, after 1885 the quantity fell off to 600,000, and in 1892 to less than 400,000 hundred weight. In only a single year, 1888, did the imports of sugar from Brazil reach the old figures, in that year two millions and a quarter hundredweight were taken. This large import was probably due to an excessive crop, for the price in that year ranged at its lowest point, and in 1887 and 1888 the United States bought largely of Brazilian sugar. This was an exceptional condition, and it may be safe to lay down the rule that as regards the supply of England with raw sugar, Brazil is an almost vanishing quantity. Here again, we find the explanation in outside conditions. In 1882, Great Britain used three hundredweight of cane sugar for every one hundredweight of beet sugar; in 1888, the year of the excessive imports from Brazil, Great Britain used two hundredweight of cane sugar for every hundredweight of beet. In 1892 she used more beet sugar than she did cane: eight and a half million hundredweight of beet sugar as against 7,780, 000 hundredweight of cane.

Assuming that the extent of territory in Brazil devoted to sugar culture has remained the same, or nearly the same, and that methods of culture and preparing the raw product

for market have not materially changed, it must follow that Brazilian raisers must have been put to it for a market for their product. To lose in eight years a regular demand for 1,000,000 hundredweight of sugar, must have worked a revolution in production. It would have required the planters some years to conform their product to the new conditions, and the break in the returns as shown by the large figures for 1888 is good evidence that the planters had not restricted their production to any marked extent. The conclusion is thus inevitably forced upon us that the commercial arrangement made in 1891, under our tariff law, merely offered a market for what Great Britain could not, or rather, would not take. This was unquestionably a direct advantage to the Brazilian sugar grower, and it would have required no threat to have led him to take advantage of any market for his product that the United States might afford. So far, then, from being a direct result of the commercial arrangement, it was a result that would have naturally come about, arrangement or no arrangement. The only notable fact that can be derived from the study of these figures, is that Brazil should not have exploited the American market for raw sugar more than she has. Having for years exported to Great Britain and the United States alone more than 500,000,000 of pounds a year, she has become content to export about 225,000,000 a year. Unfortunately, in the absence of any Brazilian figures we are unable to determine what has become of the apparently large surplus product. It has certainly not come to the United States, where doubtless it has found it as difficult to compete with the beet sugar product of Europe as it did in the English market. The point

remains, that so far as sugar is concerned, Brazil derived no separate and distinct advantage in the American market as compared with her competitors. Yet in sugar should Brazil have found the greatest benefit from the agreeement. So far as Brazil is concerned, the true test of Reciprocity seems to fail. Starting out with an apparent concession in our markets, she stands precisely where she did before the commercial arrangement was made. So far as the United States is concerned, she has no greater command than before over the products of Brazil. Just as much coffee as before goes through other countries; just as many hides as before go to Europe.

The same examination could be made of the trade returns of Central and South America. The result will not, however, be materially different. I have prepared a number of tables of specific articles which I am unable to print in this connection,* but which serve as a rude measure of the general course of trade. The following conclusions, however, may be stated:

First, that the reciprocity clause was a political, not a commercial measure.

Secondly, that the results obtained after two years' experience are by no means conclusive of definite benefit, as the commerce of other nations seems to have increased at nearly as rapid a rate during the same period, and without commercial concessions.

Third, that it has produced protest from the nations excluded, and a partition of the trade of these nations, and even a complete change in its direction.

* The tables alluded to in this paper are reserved for the Institute's edition.

Fourth, that whatever sanction or penalty arises from the application of this clause, falls upon the American consumer in the form of increased prices.

Fifth, that it gives a direct encouragement to the trade of othei nations, commercially our rivals.

Sixth, that it has reached as high a development as it is capable of reaching, and it may well be doubted if anything further can come of it.

Indeed, it is very probable that what results have been obtained were due to causes outside of the reciprocity agreement. In Central America, some months before the first agreement had been entered into by the United States with any of these countries, the British representative at Guatemela addressed a series of questions to the consular officers in the Central American Republics, asking if there had been any appreciable decline in British trade, and if so, into whose hands had the trade passed. He received replies from Guatemala, Salvador, Costa Rica, Nicaragua and Honduras, and there was a striking unanimity in these replies, namely, that British trade had declined, and that the trade was passing into the hands of Germans and Americans. They further expressed the belief that the cause of this change was the greater activity of the agents of French and German merchants, and the greater care shown in gratifying the wants of the native market. As to there being any positive inducement outside of natural trade activity to buy from Germany and the United States, there was not the slightest hint; so that even before the so-called commercial arrangements, there was a drift in Central American trade towards the United States and Germany. It remains, there-

fore, for future years to determine whether the commercial arrangement has given the United States greater advantages in the Central American market than Germany, its natural competitor, enjoys. If German trade, unsupported by any commercial arrangement, has increased as rapidly as the trade of the United States, apparently favored by discriminating duties, we must conclude that the privileges held out by the commercial arrangement are not real, and are benefits only in name. And to this conclusion all other circumstances tend.